Major Country Risk Developments
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Overview

The cost of insuring ships passing through the Red Sea has surged after Houthi militants resumed attacks on commercial vessels, threatening to disrupt global trade. Premiums charged for war risks in the stretch of water between Africa and Asia rose to as much as 1% of the overall value of a ship (as of July 8th), from a maximum of 0.4% before the attack on a Greek-owned cargo ship on June 6th. According to brokers for marine and cargo insurance, this means that the cost of cover for a $100 million vessel has increased from about $300,000 per voyage to as much as $1 million.

Previous attacks had prompted ships to take a longer route by going around the Cape of Good Hope at the southern tip of Africa. The most recent attacks seem to have been a very quick escalation in activity from the Houthis. It is expected that insurance rates will move further upwards if shipping continues to use the Red Sea corridor for transit. The Red Sea is one of the world's most important trade chokepoints and an escalation of attacks-in addition to raising insurance costs for commercial vessels-would risk higher oil prices and disruption to the flow of goods.

The attack on the Magic Seas, a dry bulk carrier, was followed by another assault two days later, on the Eternity C, another bulk carrier that sails under a Liberian flag. The attack on the Magic Seas was the first such attack by the Iran-backed Houthis since December. The militant group said the ship sank after it was attacked with gun-

fire, rocket-propelled grenades and maritime drones. The Houthis said in a statement that the attack was in response to "repeated violations by the owning company (of the vessel) of the ban on entering ports of occupied Palestine (Israel)." According to a marine security company, EOS Risk Group, the latest attacks marked a huge shift in intent by the Houthis, both because it was the first attack in a while and because of the scale of the attacks.

The Magic Seas was carrying a mixture of steel products and fertilizer from China to Turkey. The voyage had no links to Israel - the reason usually cited by the Houthis for attacking ships. The vessel's owners did acknowledge that their ships sometimes called at Israeli ports.

The UK's Maritime Trade Operations office later confirmed the ship's crew had abandoned the ship and had been picked up by a passing merchant ship. The Houthis have said they are attacking ships in support of Gaza's Palestinians. The group stopped attacking commercial vessels in the run-up to the start of a ceasefire in Gaza in January and had not resumed since, despite the collapse of that truce in March.

The other vessel attacked, the Eternity C, is operated by Cosmoship, a Greek company. It was attacked with sea drones and rocket-propelled grenades fired from manned speedboats, according to Reuters, which also reported that three seafarers were killed.

In response, Israel announced that it had forcefully struck Houthi-linked targets, including the Yemini ports of Hodeida, Al-Salif and Ras Isa and a power station.

Israel also hit the Galaxy Leader, a car carrier, attacked and seized in the first Houthi attack on merchant shipping in November 2023. The Israel Defense Force said that the ship had been fitted with a radar system to track international vessels for terror operations.

USA

According to the Secretary of Commerce, the U.S. has taken in approximately $100 billion in revenue from tariffs so far this year, as the administration indicated an escalation in the trade war is about to take place. Heavy levies on imported washing machines, refrigerators and ovens - which became effective on June 23, will likely spike U.S inflation. Overall, the U.S. runs an annual global trade in goods deficit of more than $1 trillion, but the picture varies considerably on a per country level. The administration has again reiterated that the U.S. goods trade deficit with many countries constitutes a major threat to the economy and to national security. U.S. trade balances have been volatile since the start of the year as companies stockpile goods ahead of expected tariff increases. In May, the U.S. trade deficit rose to $71.5 billion, up $11.3 billion from April when tariffs were first announced. However, the total was down from a record $138.3 billion in March.

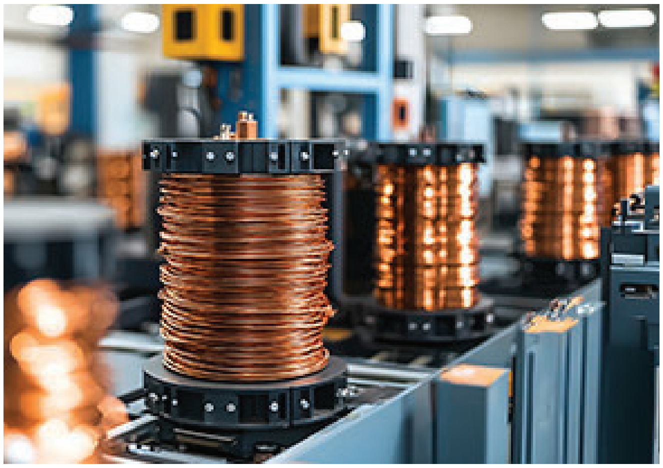
The early-year surge has reversed while U.S. negotiations with other countries were extended. Goods imports from China and Canada fell at double digit annual rates both in April and May. In contrast, goods imports from Vietnam continued to rise at a solid annual pace in April and May, as they did in the previous months.

The trade war will hit U.S. household goods as U.S. steel tariffs begin to apply to items such as washing machines, refrigerators, ovens, stoves, dishwashers, food waste disposal units, tumble dryers, etc., threatening to increase prices for these goods over the coming months. The new tariffs are in addition to the administration's existing 50% tariffs on imported steel, other steel items, and to the steel content in various goods, according to the U.S. commerce department. The expanded levies on household goods will likely spike inflation over the coming months. The May consumer price index was a reminder that if it were not for the tariffs, the Federal Reserve would be much more inclined to cut rates rather than waiting.

The Trump administration also announced that there is a strong likelihood that the U.S. will implement a 50% tariff on imported copper. This would mark the fourth across-the -board tariff imposed in Trump's second term. Currently, imported cars and car parts face 25% tariff while imported steel and aluminum face 50% tariffs.

Copper is a crucial component in a variety of goods, including electronics, machinery and cars. It is widely used in construction, electric vehicles and household hardware. Tariffs on copper will likely make those goods more expensive. Copper prices surged to all-time highs after the announcement. The most actively traded copper futures contract in New York jumped as much as 15% and hit a record $5.69 per pound, marking an all-time high and the biggest jump on record stretching back to 1969. Copper prices have soared 38% so far this year as U.S. tariffs are set to hike the cost of importing the metal. A reflection of the stockpiling occurring to get ahead of tariffs.

The threat of higher tariff rates on copper set off a rush to lock in supplies and prices for the metal, which is widely used in electronics, construction and industrial equipment. The U.S. Commerce Secretary says he expects copper tariffs to be put in place by early August. According to Citigroup analysts, the expectation is for official confirmation of a 50% rate increase within weeks and implementation to follow shortly thereafter. This may be a watershed moment for the copper market in 2025 as imminent flagged tariff implementation should abruptly close the window on further significant U.S.-bound copper shipments - possibly for the rest of 2025. Prices in New York jumped to an unprecedented 25% premium over futures in the London Metal Exchange. JP Morgan analysts noted that copper markets will be surprised by the level of the proposed copper levy, saying that the bank had penciled in a 25% tariff rate for imports of refined copper.



Chile is, by far, the biggest supplier of refined copper to the U.S., followed by Canada and Mexico, according to the U.S. Geological Survey.

Shares in Arizona-based copper miner, Freeport-McMoRan, jumped more than 5.6% after the U.S. announced new levies on copper. Copper prices are expected to rise, as a 50% tariff would suggest that U.S. prices on the CME Group's metals exchange should trade at a 50% premium over the global benchmark on the London Metal Exchange.

The metals tariffs are part of a broader suite of duties applied to specific sectors on national security grounds as the U.S. administration aims to boost U.S. domestic manufacturing across several critical industries. Imports of cars and car parts have been hit by tariffs of 25% under the same national security authority. The administration has also launched national security probes-which could lead to tariffs-into trade on computer chips and chipmaking equipment, lumber, critical minerals and pharmaceuticals.

The proposed copper tariffs came a day after the U.S. sent letters to 14 trading partners, including Japan and South Korea, threatening to hit them with 25% levies if they do not agree on a trade deal by August 1. South Africa would face 30% tariffs. The administration has promised that additional letters will be sent shortly to several other countries urging them to settle on a deal with the U.S. by August 1st or face higher tariffs.

Ahead of the previous July 9th deadline for countries to agree on trade deals with the U.S., Washington has signaled a fresh round of tariffs on manufacturing hubs in south-east Asian countries that have become a conduit for Chinese manufacturers looking to escape U.S. levies on imports. Cambodia, Indonesia, Laos, Malaysia and Thailand have been threatened with duties ranging from 25% to 40% in an apparent final bid to force them to the negotiating table ahead of a new August 1 deadline. President Trump has stressed that there will be no additional extensions to the August 1 deadline for countries to cut trade deals with the U.S.

Furthermore, Vietnam -the biggest destination for "rerouted" Chinese goods-has reportedly accepted a 20% tariff on its exports to the U.S., raising the levy to 40% for goods that had been transshipped.

The U.S. administration expects its trade policies to raise more than $300 billion in revenue to the Treasury by year-end. While it is hard to predict at what level duties will finally settle, the outline of a new Asian 'tariff wall' is beginning to take shape that would warp regional and global supply chains. There may still be time for south-east Asian countries such as Cambodia, Malaysia and Thailand to negotiate a better deal with Washington.

Vietnam's 20% tariff deal may not necessarily become the benchmark for other south-east Asian countries that are less dependent on China for their manufacturing inputs, and less guilty of accepting rerouting goods to avoid U.S. tariffs. Whatever the final tariff levels agreed, this will force increases in prices for goods exported from the region, which remains a manufacturing hub for many consumer goods sold in the U.S. Manufacturing will get more expensive in Asia generally, but in principle, the 20% 'tariff wall' might be different across countries where inputs from China are smaller.

If all the proposed tariff measures are enforced, Japan faces a 25% tariff on automobiles and auto parts, a 50% tariff on steel and aluminum, and a 24% tariff on all other goods it exports to the U.S. Japan's economy depends on exports. The U.S. is its second-largest market, after China (including Hong Kong), accounting for roughly 20% of all exports, and steep tariffs would make many Japanese goods too expensive for American consumers. Tariffs on automobiles and auto parts are especially damaging, as these goods represent more than a third of Japan's exports to the U.S. Japan's top 1,000 companies expect a 7% drop in their total profits between April 2025 and March 2026, after making continuous gains since 2020.

Even if Tokyo can negotiate with the U.S. to secure tariff exemptions, significant harm has already been done. Many countries, including Japan, have lost confidence in the long-term openness of the U.S. market. It has become too risky to rely too much on trade with the U.S. The erosion of multilateral institutions has slowed the expansion of trade and weakened the enforcement of trade rules for all. The effort to build secure supply chains for critical minerals and clean energy products—reducing dependence on China for these vital goods and inputs—has grown more challenging as the U.S. erects barriers to trade.

The expectation is that the U.S. 'tariff wall' will have regional supply chain impacts, including potentially slowing the shift of Chinese manufacturing into the 10 countries of the Association of Southeast Asian Nations (ASEAN) regional grouping, which accelerated during the first Trump term. A relatively high tariff on countries that could substitute for China in global manufacturing could probably slow the shift of firms out of China because there would be less urgency if the wedge between tariffs on China and other manufacturing economies are smaller.

Furthermore, the U.S. announced that it will impose tariffs of 50% on Brazilian goods starting on August 1, citing legal action against its former President Jair Bolsonaro and U.S. tech firms as justification for the levies. Bolsonaro, the leader of Brazil's political right and a Trump ally, is on trial in Brazil over an alleged coup attempt against the sitting government of President Luiz Inácio Lula da Silva.

Coffee, orange juice, and iron ore prices will be hit, driving up costs on businesses and consumers. There's already a shortage of global coffee supplies due to weaker crops in Brazil, Vietnam and Colombia. Unless a carve out can be made with the U.S. excluding coffee from 50% tariffs, prices will jump. Brazil's farmers and commodity exporters will take a hit in this trade war.

The economy may slow if immediate alternative markets are not found to ease Brazil's reliance on the U.S. for its exports. Meanwhile, Brazil will be forced to begin deep negotiations with the U.S. toward a mutually beneficial trade agreement.

No doubt, Brazil will see the need to embark on a global roadshow, to showcase its crops, minerals, mining, machinery, airplanes, oil & gas, banking, agribusiness, aluminum, steel, chemicals and manufacturing sectors. Remarketing Brazil's strengths while exploring deeper links across the globe will become urgent if Brazil is to achieve sustainable growth.

Brazil has a strong trade relationship with China. However, a slowing Chinese economy caused dips in demand for Chinese imports from Brazil.

Maintaining diversity in trade relationships are as vital for advanced economies as it is with developing countries. Wider trade links is becoming a watchword as countries and regions strive to be less reliant on any one country or source for the goods and services they must trade. It will take time, but countries will have little choice but to expand into new markets. That will become the survival kit for an increasing number of countries despite [or maybe because of] the ongoing trade war.

The U.S. also foreshadowed the results of an investigation into pharmaceuticals, which includes finished generic and brand-name drug products, and critical inputs such as active ingredients. The administration said it would allow between 1 year to 18 months for companies to begin producing these products in the U.S. After that, tariffs in the 200% range would be applicable for imported medicines. With a year before tariffs kick in, lobbyists for the sector are expected to step up activities in attempts to tamp down the level of tariffs that could eventually be placed on imported pharmaceuticals.

The probes into critical sectors, known as Section 232 investigations, for lumber, copper, pharmaceuticals, aerospace, chips and consumer electronics, have heightened uncertainty among U.S. trading partners as they try to negotiate deals to shield themselves from possible higher U.S. tariffs.

Only the United Kingdom (UK) has secured any form of relief from sectoral tariffs. As part of its recent deal with the U.S., the UK was granted a reduced tariff of 10% on an annual quota of 100,000 cars, instead of facing the 25% tariff applied to most countries. The U.S. is also negotiating with the UK over a quota for lowered-tariff on steel imports and has pledged to negotiate carve-outs for British companies from future pharmaceutical tariffs.

The U.S.'s effective tariff rate is projected to increase to 16.5% if current policies remain in place. The figure would represent a sharp increase from the 2024 rate of 2.4%. These are from estimates made by think tank, Yale Budget Labs (YBL), if so-called reciprocal tariffs are levied on 14 countries after the "pause" expires on August 1, combined with the broad array of tariffs already in effect.

YBL estimates that current tariff policy will increase the price for U.S. households by 1.7% in the short term, equivalent to an annual loss of $2,300 on average. With various new proposed tariffs, this figure will likely increase over the coming year. In May, the effective tariff rate was recorded at 8.8%, the highest level since 1946. Even if tariffs settled at a relatively high rate, they seem unlikely to achieve the U.S. administration's stated ambition of pulling manufacturing back to the U.S. The choice for U.S. consumers and firms in most instances, will be between paying more for a foreign-made product that now has an additional tariff or going without. In many sectors, U.S. production still would not be competitive with imports, even after tariffs are paid.

China

Chinese manufacturing activity contracted for the third consecutive month in June, according to official data, highlighting pressure on the country's policymakers to boost domestic demand after a fragile trade truce with the U.S. The manufacturing purchasing managers' index stood at 49.7 in June, according to China's National Bureau of Statistics (NBS), an improvement on May's reading of 49.5 but still below the 50-mark that separates economic expansion from contraction.

China's manufacturing Purchasing Managers' Index (PMI)- a monthly survey that provides an early glimpse of economic activity-turned negative in April as an escalating trade war with the U.S. drove tariffs to levels as high as 145%. A truce signed in June between Washington and Beijing reduced those levies, but the world's second-largest economy is still facing an uncertain trade outlook as it battles to improve consumer demand in the shadow of a severe real estate slowdown and continued deflation. Consumer price growth in China has declined for five consecutive months to June. The bigger reflection is domestic demand. Deflation continues to deepen as the price war across sectors increases.

Exports to the U.S. fell in May by the most since the start of the coronavirus pandemic, though overall exports, a critical growth driver given weakness in the property/real estate sector, continues to rise.

The June PMI data shows some improvement. The figure for new export orders was 47.7, still in contraction territory but significantly above April - when they fell to their lowest level since late 2022. Export orders were likely reflecting a rebound in U.S. demand after the U.S.-China trade truce. A 90-day pause on U.S. tariffs on dozens of other countries will also expire In July.

Retail sales in China unexpectedly jumped in May, according to NBS data, but concerns over consumer demand continue to drive expectations on the need for further stimulus measures. The authorities have cut interest rates repeatedly and sought to boost confidence in the housing sector, where house prices are still falling and signs of recovery lost ground in May and June.

The non-manufacturing PMI was 50.5 in June, up from 50.3 a month earlier. The overall level was boosted by a rise in the construction sector's PMI, which hit 52.8. Composite PMI across manufacturing and services was 50.7. The composite PMI in the second quarter was still below that of the first quarter. This is consistent with a quarter-on-quarter slowdown in GDP growth. Many doubt that the second half of 2025 will be much better for China's economy, with weaker exports and reduced fiscal support likely weighing on momentum. However, that will depend on when and how aggressively the authorities chose to intervene with additional stimulus measures.

Chinese policymakers are likely to wait and further monitor developments in the trade war, as they point to improvements in exports. The bottom line is: deflationary pressure is persistent in China and the labor market is under stress.

Shortly after China announced new restrictions on exporting rare earth minerals and the specialized magnets it makes, the global auto industry warned of shortages that could force factory closures. China's skillful deployment of rare earth sanctions was key in forcing Washington to tamp down its tariff increases on the country. The new controls on exporting rare earth materials and magnets have been effective - as they threaten to shutter key factories across the auto industry -the largest manufacturing sector in most advanced economies. Specifically, Washington could not ignore the loss of rare earth materials and its impact on auto companies.

China has even made this extraterritorial, demanding that companies in other countries not use Chinese minerals to make products for the U.S. defense industry.

Indeed, since April, Chinese exports of rare earth minerals and magnets have fallen not only to the U.S., but to other major trading partners such as Japan and South Korea. Indian automakers have cut production in the face of materials shortage. Meanwhile, the European Commission has called for more non-China production of these materials. The European Union is prioritizing rare earth exports in its diplomacy with China.

Fully 90% of global rare earth magnet processing takes place in China. These minerals are critical for the manufacturing of electric vehicle batteries, smartphones, defense equipment, various electronic products, video game machines, etc.

China announced the discovery of 38 new sites of mineral reserves in 2025, adding to an already estimated 3.37 million tons of mineral reserves. This gives China huge leverage in trade negotiations with countries and companies eager to secure consistent, long-term supplies of

these critical minerals.

Countries like India are vulnerable to supply chain shocks, forcing them to explore alternative sources. India is currently in talks with Australia as one such alternative source of rare earth magnets [versus complete reliance on China].

Still, this broad global impact suggests that China's ability to precisely target rare earth restrictions may be limited. It is harder to restrict resale of commodities like rare earth oxides than, say, jet engines or chipmaking equipment. If China wanted to only cut rare earth materials from reaching the U.S., it might struggle to do so. Companies in other countries could continue to quietly sell to American customers.

Nonetheless, the most striking aspect of China's weaponization of rare earths is how unprepared western governments and companies were. Despite widespread knowledge that China dominates the production of these materials and over a decade and a half after China first cut rare earth exports to Japan in 2011, the west has failed to secure new suppliers.

Some modest steps were taken. Korea expanded its stockpiles. Japan invested in Australian mines. Yet, most western governments devised critical minerals strategies and then chose not to fund them. Manufacturers speak of resilience, yet some keep only a week's supply of rare earth magnets in their inventories. This is a weapon that companies (and countries) have been staring at for decades. No one should have been surprised when Beijing finally pulled the plug.

Canada

Hours before a 3% levy on revenue for the biggest technology companies was to take effect on June 30th, Canada scrapped a digital services tax that targeted U.S. technology companies. The reversal was an effort by Canada to smooth trade negotiations with the U.S. after President Trump described the levy as a "direct and blatant" attack and said the U.S. would immediately terminate talks toward a deal.

Canada's finance minister said that rescinding the digital service tax (DST) will allow negotiations for a new economic and security relationship between both countries to make progress and would help secure jobs and build prosperity for Canadians. Canada and the U.S. agreed that they would resume negotiations once the proposed levy was withdrawn.

In December 2023, Canada's parliamentary budget office estimated that the DST would increase Canada's government revenue by U.S.$5.3 billion over five years. The tax, first announced in 2020, targeted companies such as Meta, Netflix and Amazon as well as local businesses. While the tax was one of the U.S. main complaints, it was also unpopular with some Canadian business groups. The Business Council of Canada reiterated that for years it had warned that the implementation of a unilateral DST could risk undermining Canada's economic relationship with the U.S. Canada has an annual trading relationship with the U.S. worth $1.3 trillion and sells most of its products and services to the U.S.

Canada's new Prime Minister, Mark Carney, launched a sweeping set of reforms aimed at diversifying the economy from relying on the U.S. too heavily, including a push to drop internal trade barriers that have prevented the flow of goods and services between its provinces.

Canada also announced a huge increase in its defense spending, enabling it to meet NATO target of at least 2% of GDP annually this year instead of 2030. This followed U.S. criticism that Canada and other NATO members were not pulling their weight.

The U.S. proposal to hit copper imports with 50% tariffs triggered a response from Canada. The Mining Association of Canada said billions of dollars' worth of energy infrastructure, such as copper piping, was shipped from

Canada to the U.S. each year as part of an integrated North American industry. It added that the U.S does not have enough copper refining capacity or smelters and therefore relied on Canadian imports of the metal. It concluded that the proposed 50% tariff on copper would hurt U.S. manufacturing and may even strengthen Chinese manufacturing of copper products. Apparently, Canadian industry leaders were unaware this proposal was forthcoming as it was not included in ongoing trade negotiations between both countries.

Total Canadian exports of copper to the U.S. were $5.7 billion in the twelve months through May 2025, or roughly 0.2% of Canada's GDP. Added to that are $34 billion of steel and aluminum exports, for a combined 1.3% of GDP. Regionally, Quebec remains in the crosshairs, accounting for most of Canada's U.S. copper shipments. That would leave combined metal exports exposed to high tariffs above 3% of GDP. British Colombia is also a major copper producer, but most of those exports go to Asia. The bottom line is: even if a copper tariff would be relatively contained, it would be another shot that impacts Canadian business confidence more broadly.

The projection is for the Canadian economy to decelerate to 1.4% in 2025, after growing by 2% in 2024. Economy activity grew in the first quarter of 2025 driven by net exports due to the frontloading of exports ahead of U.S. tariffs. However, domestic demand fell slightly, dragged by investment. The economy is expected to decelerate for the rest of 2025, growing below 1% in the second, third and fourth quarters. The main reasons are the uncertainty from U.S. policies and higher U.S. tariffs.

Canada's recent change to a more restrictive immigration policy is likely to impact GDP growth negatively as well. The slowing economy will also weaken the labor market. Core inflation remains high at 3%, above the central bank's 2% target.

Chile

Two major foreign investment projects in Chile have recently been announced. The first is a massive $16 billion green hydrogen and ammonia project in the Magallanes region by Total Eren, a subsidiary of the French energy firm, TotalEnergies. The second is a $4 billion data center project by Amazon Web Services (AWS), a subsidiary of U.S tech giant, Amazon.

The announcements highlight the attractiveness of Chile's business environment for foreign investors- the strongest performing economy in the region. Chile benefits from good institutions, a relatively educated workforce, good infrastructure in the country's urban centers as well as vast natural resources, including copper, wind and water resources in Patagonia.

It is believed that the timing of the announcements coincides with the expectations that a more business-friendly government will likely take office in March 2026, following the next general elections.

The two projects show that the current government's priority to encourage data center and green hydrogen investments is starting to bear fruit. The administration of the former center-right president, Sabastian Pinera (2010-14 and 2018-22), launched a national hydrogen strategy in 2020 to make Chile a major exporter of green hydrogen. The current president, Gabriel Boric, has expanded the strategy with the national Green Hydrogen Action Plan 2023-30, which largely focused on developing regulatory and environmental standards. The Boric administration also launched its national data center strategy last December. This effort seeks to establish regulatory standards, work with industry to determine best practices regarding water usage (a major concern for environmentalists) and develop talent. The two projects are central to fulfilling the government's economic and development objectives.

Large scale projects in Chile have so far been hampered by excessive environmental approvals process. The expectation is that the next government will prioritize easing the approvals process and expediting existing projects, which are attractive to investors.

Total Eren's announcement of its H2 Magallanes green hydrogen and ammonia project is a signal that investors are confident in the future of the sector, despite concerns about a shortage of buyers for green hydrogen projects. H2Magallanes is the largest investment in a green hydrogen project in the region. The heart of the project is the electrolysis plant that is slated to produce 800,000 tons of green hydrogen a year and a green ammonia plant that will have the capacity to produce 4.4 million tons of ammonia a year. If the firm gets its environmental permits approved, construction is scheduled to begin in 2027, with hydrogen production expected in 2030.

Over the last year, a total of $37 billion in green hydrogen projects were announced in Chile.

Chile is by far the biggest supplier of refined copper to the U.S., accounting for about 70% of imports in dollar terms-followed by Canada and Peru, according to Trade Data Monitor. Chile's industrial business lobby has warned that U.S. tariffs as high as 50% could cause a substantial worsening in Chile's trade conditions.

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